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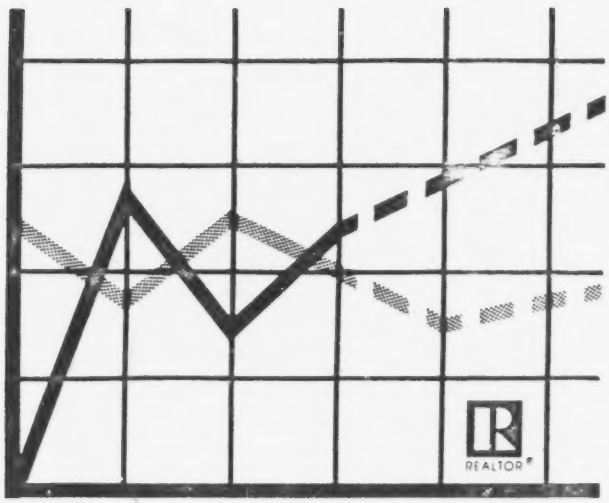
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



BY

DR. JACK CARLSON
Executive Vice President & Chief Economist
NATIONAL ASSOCIATION OF REALTORS®

777 14th Street, N.W.
Washington, D.C. 20005

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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

The current recession is showing signs of bottoming by spring and the economy should begin a modest but sustained recovery by summer through 1983 and 1984. Both inflation and short-term interest rates should trend downward until summer and then move upward in the fall and winter reflecting a collision of increasing Federal quarterly- deficit borrowing, increasing borrowing by households for housing and automobiles, and borrowing by business for inventories and plant equipment. This collision will be made more intense by stingy growth of money supply. The resulting high and fluctuating interest rates will limit growth in output, jobs, incomes, and profits beginning the second half of 1982 and continuing through 1983 and 1984.

The Current Recession and Recovery in Historic Perspective

The economy slipped into an average post-war recession during the final three months of 1981 as output fell significantly. A modest decline in real gross national product can be expected through spring because of depressed housing construction and sales, auto manufacturing sales and declining exports driven by over-valued dollars (which in turn is caused by high interest rates), and declining business investment in inventories, structures, and equipment. The decline in real output matches the average 2.5 percent experienced in previous recessions during the last 35 years.

The primary impetus for summer growth will come from the second round of personal income tax rate cuts and increases in social security payments scheduled for July, secondary stimulus should come from the acceleration of defense spending. This fiscal stimulus should mainly boost consumer spending for consumer durables and housing followed by business equipment. However, investment in housing and business investment is expected to be modest during the recovery as interest rates accelerate again in the fall of 1982, remain high in subsequent years, and fluctuate widely.

The Federal Reserve Board is likely to relax money growth until after November, 1982 in recognition of its delegation of authority from the Congress which is running for reelection. The greatest acceleration of interest rates should come during next fall and winter and restrict overall growth below the levels achieved in an average recovery. Gross national product adjusted for inflation can be expected to grow at about a 4 percent annual rate in the second half of 1982 and 1983 compared to a 7 percent growth in the average recovery. In the mid-1980's growth should slow further as the economy hits against the twin resource constraints of slower growth in the labor force and inadequate investment.

As the labor force grows 1.5 percent during 1982 and output declines to only grow modestly, unemployment should remain high at 9 percent. However, the unemployment rate should begin to decline by November, which should limit the loss of Republican members of the U.S. House of Representatives to 10 to 20. Unemployment should continue to drop to 8 percent during 1983 but not reach 7 percent before the next recession -- a much higher path of unemployment than during any other cycle. Business investment can be expected to just keep up with the pace of the overall economy -- maintaining about 10-1/2 percent of the gross national product. The additional savings expected from tax relief will be siphoned off to finance the larger federal deficits.

Consumer price inflation, which had dropped from 13.5% in 1980 to 10.3% in 1981 should drop to nearly 8% in 1982, lower in the first half than in the second half. Much of the improvement was due to special factors, including more stable mortgage rates, lower food prices from good harvests, lower energy prices, and lower import prices. Also the current accumulation of unsold inventories has squeezed profit margins and lowered sales prices. Inflation should average less than 8 percent until summer and average 8 to 9 percent as the recovery occurs.

Slowdowns in inflation of this magnitude have been typical during previous recessions and have resulted in accelerating inflation as the recovery gathered momentum often to set new records. The underlying rate of inflation currently remains stubbornly stuck near 9 percent. Compensation per worker -- a key influence on production costs -- is expected to grow over 9 percent a year during the next two years, if it follows the historical pattern of catching-up past declines in purchasing power. Productivity growth will likely average 2% following the recession through 1984 and help keep inflation from accelerating and to decline modestly.

Unfortunately, the next most likely forecast is higher inflation in 1983 and 1984, not lower, as the current world oil inventories are reduced and OPEC production is restrained, as Congress accelerates the decontrol of natural gas, as the Administration enacts excise taxes, and if food harvests return to average or below average.

The current recession is reducing corporate profits. Althrough profit figures are somewhat distorted by the accounting treatment of last year's tax changes, corporate profits from current production should remain low until summer and show modest improvement until 1983 or possibly 1984. Profits per unit of output should continue depressed at 3 to 3-1/2 percent of the Gross National Product instead of an historic current-production profit of 4 to 5 percent. The effective tax rate on corporate profits can be expected to start rising again in late 1982 as inflation and higher interest rates offset much of the impact of the 1981 corporate tax rate cuts. This, in addition to high interest rates, should continue to restrain investment in new plant and equipment.

Foreign Trade and the Economy

The economic performance of many of our major trading partners over the past two years has been even worse than in the United States. Industrial production in Western Europe stagnated in 1980 before falling over 2 percent last year. 1981 was also a poor year for Japan, as industrial production grew only 2.6 percent, much lower than the post-war average in Japan of 11.5 percent. As economic growth picks up in both Europe and Japan this year and continues into 1983, the U.S. could normally be expected to enjoy faster export growth. Unfortunately, record short term interest rates in the U.S. over the past two years have caused exchange rates for the dollar against major trading partners to appreciate too rapidly. This will undermine the competitiveness of U.S. exports and boost U.S. imports. In turn, this will slow export growth and make the 1982 recession in the U.S. deeper than otherwise.

Monetary Policy, Budget Deficit, Inflation and Interest Rates

Since 1979, the Federal Reserve Board has pursued a monetarist approach to fighting inflation by tightly limiting the growth of money and credit. With the Fed's calls for slower government spending growth and smaller deficits to complement its monetary policies going largely unheeded by the Federal Government, tight credit growth has had only a small effect on inflation. Rather, monetary policy has helped to produce record interest rates which have crippled housing and other interest sensitive industries and caused the current recession.

The Fed's tight credit policy has been aimed at lowering inflation and inflationary expectations and thereby lowering interest rates. However, long run interest rates have been driven up to an increased premium over expected inflation by stingy credit growth targets and rising federal deficits. Historically, long run interest rates have tracked about 3 percentage points above the underlying inflation rate, but during the past two years, have doubled and averaged 7 percent above anticipated inflation.

Unfortunately, there is no reason to expect high real interest rates will drop significantly during 1982 and possibly 1983. Only the temporary relief from high inflation and some reduction in interest rates will occur as the economy reaches its low point this spring. This is likely to prove temporary as interest rates trend upward by winter. Nor can much relief from high interest rates be expected from the "supply side" economic policies adopted by the Federal government last year. The tax relief enacted last year was too heavily directed at consumption stimulating reductions in personal tax rates (72 percent) and is insufficiently targeted at boosting savings and investment (28 percent), while the spending slowdowns too small and the increases in the deficit too large for any supply side impacts to lower interest rates.

The excessively tight credit growth policies which are helping produce these record rates are not the best way to fight inflation either. There is enough evidence to suggest that most of the impact of a modest increase in credit growth such as a 1 percent faster growth in money supply on top of the Federal Reserve Board's target for 1982 and extended in 1983 and 1984 would result in 0.75 percentage point faster real economic growth and only 0.25 percentage point growth in prices. This modest acceleration in inflation could be more than fully offset by reducing the Government deficit by $30 billion. The resulting lower interest rates would spur investment in industry and housing and would insure greater productivity growth and less housing shortage, which in the longer-run could actually reduce underlying inflation. This is not to say that a large burst in the growth of money supply would not have a major inflationary consequence; rather, if limited to a modest 1 to 2 percentage points faster growth in the money supply, real incomes and output could be higher without pushing up inflation.

The Outlook for Interest Rates

The Federal Reserve Board can be expected to be cautious in achieving their stringent targets until after the November 1982 election. However, with the large

seasonal borrowing of the Federal government at the annual rate of $200 billion during next winter and stricter money growth management after the election, short-term interest rates could approach the record levels of this autumn and long-term rates could increase 1 to 2 percentage points.

The President could take advantage of next winter's run-up of interest rates following the November election to advocate slower growth of Government entitlement and defense programs and major increases in excise taxes. This would reduce the Federal deficit in 1983 from $150 billion plus down to $80 to $130 billion for fiscal years 1983 and 1984.

Historically, short-term interest rates fell by about one-fourth during recessions. Now, with the two-year Federal Reserve policy, rates fluctuate more widely -- by one-half from peak to trough (more than 10 percentage points). Moreover, fluctuations are much more frequent and not necessarily tied to recessions. Preliminary analysis shows that more interest-rate-sensitive sectors, such as housing, suffered one-third of their 1981 decline from greater fluctuation in interest rates and two-thirds from the higher average level of interest rates.

Short-term interest rates may decline modestly until the spring. Long-term rates may decline modestly to the summer as has been the case in past recessions, but will not fully decline until fiscal and monetary policy are working together.

Mortgage Markets

Deposits in thrift institutions suffered net outflows during 1981 and may do so during 1982. The hoped-for improvement which was evident in October but was reversed by November, occurred because of fluctuations in the interest rates and their impact on interest rates paid for All Savers Certificates. The yield on All Savers Certificates dropped from a high of 12.60 percent in October to 8.34 percent causing a slowdown in deposit inflows. In October, mutual savings banks gained $4 billion in new All Savers deposits compared to only 0.8 billion in November. Savings and loans gained $16.5 billion in October and only $2.5 billion in November. However, the rate on the certificates has now rebounded to over 10 percent which should boost inflows into the All Savers Certificates.

Financial institutions, including thrifts, should expect significant inflows from the wider eligibility of the Individual Retirement Accounts during 1982. Increased inflows to thrifts could double the rate of mortgage commitments from what occured during the last half of 1981.

Commercial bank holdings of mortgages are expected to increase at an average annual rate of 5.5 percent during the first half of 1982 (down from 8 percent in 1981), but increase more rapidly during the second half.

Although these modest improvements in mortgage flows from traditional lenders will provide some boost to housing this year, the availability of mortgage funds will remain tight. The Fed's strict monetary policies mean that small time and savings deposits at major financial institutions will be restricted to less than 5 percent

growth in 1982 -- not enough to allow a marked increase in the volume of new loans. This will maintain pressure on current homeowners to provide a substantial amount of seller financing when selling existing homes.

Housing

Housing sales and construction should improve slowly through the spring and accelerate through 1983, except for the pause likely to be created by higher interest rates next winter. This anemic improvement comes from the bottom of the worst housing recession since the 1930's. Both housing starts and existing sales are less than half of the pace in 1978, certainly less than half of the underlying demographic demand for housing, as indicated by the expanding proportion of young households. Rental vacancies are back to a historically low 5 percent.

The housing recession has dampened the growth of home prices during the last year. From twelve months ago, median existing home prices increased by only 4.7 percent and new home prices by only 7.5 percent. And, after adjusting for inflation, prices have declined by a greater amount than in any other period since the Great Depression.

Existing home sales can be expected to increase from 1.9 million to an average 2.5 million in 1982, up 30 percent but still at least 30 percent below the underlying demographic demand. However, improvement which starts in 1982 should continue in 1983 when housing starts should be approaching 1.7 million and existing home sales 3.5 million, still below demographic demand and not enough to take care of the backlog.

After a few more months of modest home price increases, home prices can be expected to increase at the pace of overall inflation, perhaps somewhat higher to reflect the mounting housing shortage. Because of high interest rates, higher utility bills and high home prices causing mortgage payments to increase, homeowners, especially new home owners, can be expected to increase the proportion of their income spent on housing -- which has been the trend in this country for the last ten years and is drawing the United States more in line with the proportion of household budgets spent on housing in several other indusurial countries.

Commercial and Industrial Real Estate

Typically the nonresidential real estate investment cycle lags housing investment by one year and lags the aggregate economy by a lesser time. Accordingly, we can expect commercial and industrial real estate markets to be depressed for the greater part of 1982. Also, the stimulus of tax relief will be offset by high interest rates. The value of commercial construction put in place began to decline in the final period of 1981 and is expected to trend further downward until mid-1982, when a rally should commence. Industrial construction remained strong through year-end, but is expected to begin three quarters of decline during the opening months of 1982.

Reduced construction activity will also tighten office and industrial space availability. By 1983, a vacancy rate of 3.4 percent could prevail in industrial buildings and 3.8 percent in office buildings. Office availability should be tight at that level. During 1984, vacancy rates should ease somewhat as construction projects begun in late 1982 and early 1983 come into use.

Table 1

U.S. ECONOMIC OUTLOOK

JANUARY 1982

	QUARTERS							YEARS					
	Actual	Forecast						Actual		Forecast			
	81:3	81:4	82:1	82:2	82:3	82:4	83:1	1979	1980	1981	1982	1983	1984
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,965	2,982	3,009	3,079	3,183	3,288	3,384	2,414	2,626	2,921	3,140	3,537	3,940
Percent Change	11.4	2.3	3.7	9.7	14.2	13.8	12.3	12.0	8.8	11.2	7.5	12.7	11.4
Percent Change (without inflation)	1.4	-6.6	-2.8	2.0	5.8	3.8	3.6	3.2	-0.2	1.9	-0.6	3.9	3.4
Consumption	3.3	-2.4	1.6	3.6	4.4	3.8	3.8	2.9	0.5	2.5	1.7	3.8	3.1
Durables	8.6	-20.8	11.8	8.0	20.0	11.0	8.2	0.2	-7.4	2.5	2.2	9.6	5.8
Nondurables	2.1	1.4	-0.2	-0.3	1.2	2.0	3.7	2.6	1.1	2.6	0.9	2.5	2.1
Services	2.6	0.8	0.2	5.5	2.5	3.0	2.6	4.1	2.6	2.5	2.1	3.1	3.0
Residential Investment	-36.3	-16.9	-3.2	42.2	42.2	30.1	26.9	-5.2	-18.6	-5.4	1.1	25.3	7.2
Nonresidential Investment	7.1	-11.9	-7.7	-1.4	1.4	2.5	4.0	6.5	-3.0	1.9	-3.6	3.8	5.2
Structures	8.4	-0.6	-10.8	-9.8	-6.0	0.0	1.2	8.7	-0.1	4.8	-4.2	0.3	4.6
Equipment	6.3	-16.7	-6.3	2.7	4.9	3.6	5.3	5.5	-4.2	0.7	-3.3	5.3	5.4
Exports	-3.4	-5.2	-3.5	-0.6	3.6	6.1	1.7	15.2	9.6	-0.3	-1.8	3.6	7.9
Imports	5.3	5.9	-0.9	3.2	7.2	8.1	6.6	6.0	-0.1	6.0	4.4	6.7	5.8
Government Purchases	-1.6	-1.0	-0.9	-1.6	0.5	-4.0	-0.4	1.5	2.9	-0.1	-1.5	-0.6	0.7
Consumption (% of GNP)	63.5	64.2	64.9	65.2	65.0	65.0	65.0	62.8	63.2	63.6	65.0	65.0	64.8
Residential Investment (% of GNP)	2.8	2.7	2.7	3.0	3.2	3.4	3.6	4.0	3.2	3.0	3.1	3.7	3.8
Nonresidential Investment (% of GNP)	10.8	10.7	10.5	10.4	10.3	10.3	10.3	11.0	10.7	10.7	10.4	10.4	10.5
Inventory Change ($ billions)	27.5	14.5	-5.5	-10.0	5.1	14.2	17.3	17.5	-5.9	17.5	0.9	20.6	27.0
Mfg. Capacity Utilization Rate (%)	79	75	73	73	75	76	77	86	79	78	74	78	80
Auto Sales (millions of units)	9.1	7.4	8.0	8.5	9.3	9.8	9.9	10.6	9.0	8.6	8.9	10.0	10.4
Manufacturing Industrial Production (% change)	0.4	-16.7	-5.5	3.5	10.4	9.3	7.9	4.6	-4.5	2.6	-2.2	7.4	5.3
Common Market	-3.3	5.1	4.1	3.1	3.2	4.8	4.3	4.7	0.3	-2.6	2.8	3.3	2.5
Japan	6.7	2.9	5.7	4.7	2.5	3.6	4.1	8.2	6.8	2.6	4.1	3.9	3.7
Employment (millions)	98.7	98.0	97.8	98.0	98.7	99.3	100.2	96.9	97.3	98.4	98.4	101.5	104.3
Unemployment Rate (%)	7.2	8.4	9.0	9.2	9.0	8.9	8.6	5.8	7.1	7.6	9.0	8.3	7.7
Disposable Income per Household (average)	26,349	26,893	27,334	27,869	29,106	29,862	30,609	21,565	23,748	26,044	28,543	31,874	35,130
Percent Change -- Year Ago (w/o inflation)	1.5	1.1	0.4	0.5	2.7	3.4	4.1	2.2	-0.1	1.2	1.8	3.7	2.8
Total Taxes per Household (average)	13,651	13,340	13,480	13,791	13,848	14,277	14,679	11,106	12,057	13,428	13,849	15,049	16,281
Percent Change -- Year Ago	13.0	5.1	1.0	3.1	1.4	7.0	8.9	10.5	8.6	11.4	3.1	8.7	8.2
Percent of Disposable Income	51.8	49.6	49.3	49.5	47.6	47.8	48.0	51.5	50.8	51.6	48.5	47.2	46.3
Household Debt as Percent of Disposable Income	77.6	77.1	76.8	76.5	74.5	74.2	74.2	80.2	79.4	77.7	75.5	74.1	74.7
Consumer Price Inflation (CPI)	11.9	8.6	7.1	7.3	8.2	8.7	9.0	11.3	13.5	10.3	8.2	8.4	8.5
Gross National Product Inflation (GNP Deflator)	9.9	9.4	6.7	7.5	7.9	9.6	8.4	8.5	9.0	9.2	8.1	8.5	7.7
Personal Consumption Inflation	9.1	8.1	7.3	7.3	7.3	7.7	8.5	8.9	10.2	8.4	7.6	7.7	7.2
Residential Construction Inflation	7.1	5.6	9.4	9.5	10.4	10.9	11.6	12.8	9.4	6.9	8.4	10.9	9.1
Nonresidential Construction Inflation	8.6	6.9	9.8	9.8	10.8	11.2	12.2	12.6	13.4	9.3	9.6	11.3	9.4
Producers Price Inflation (WPI)	4.5	1.3	6.7	8.0	9.2	10.5	11.1	12.5	14.1	9.2	6.3	10.1	9.6
Compensation per Manhour (% change)	9.3	8.5	9.7	9.2	9.4	9.7	9.8	9.7	9.9	10.1	9.3	9.5	9.3
Productivity (% change)	-2.0	-3.4	-2.2	1.6	2.8	2.5	1.7	-0.7	-0.3	1.1	-0.5	2.1	1.8
Unit Labor Cost (% change)	11.1	12.4	12.1	7.5	6.4	7.0	8.0	10.4	10.3	8.9	9.9	7.3	7.3
Unit Capital Cost (% change)	9.5	8.8	8.3	7.8	7.4	7.1	6.9	11.3	11.3	9.8	7.6	7.1	8.2
Before Tax Corporate Profits ($ billions)<1>	263	228	213	228	253	276	284	255	258	259	243	308	349
Corporate Tax Liability	78	64	57	63	72	81	82	88	82	77	68	90	98
'Windfall Profits' Tax Receipts	29	28	28	29	29	30	30	0	13	29	29	31	33
Inventory Valuation Adjustment	-25	-13	-22	-32	-38	-43	-49	-43	-46	-25	-34	-48	-50
Capital Consumption Adjustment	-13	-14	-11	-15	-20	-25	-23	-16	-17	-14	-18	-31	-33
After Tax Profits	156	136	128	137	151	165	172	168	163	154	145	187	217
Profits from Current Production (with IVA, CCA)	118	109	95	90	94	97	101	109	100	114	94	108	134
Adjusted for Inflation (81:3 base)	118	107	92	85	87	88	90	131	111	115	88	93	107
Percent Change - Year Ago	8.3	2.1	-23.6	-27.2	-25.9	-17.5	-2.3	-1.6	-15.7	3.9	-23.7	6.1	14.8
Per Unit of Output (% of GNP)	4.0	3.7	3.2	2.9	3.0	3.0	3.0	4.5	3.8	3.9	3.0	3.1	3.4
Effective Corporate Tax Rate (%)<1>	41	38	39	42	44	45	45	45	45	41	42	45	43
Federal Tax Receipts (Unified basis)	627	542	538	796	630	595	610	481	533	611	640	712	787
Federal Expenditures (Unified basis)	661	712	732	734	755	784	804	509	602	678	751	823	914
Surplus or Deficit (Unified basis)	-34	-170	-194	62	-126	-188	-194	-28	-69	-67	-111	-111	-127
% of GNP	-1.2	-5.7	-6.4	2.0	-4.0	-5.7	-5.7	-1.2	-2.6	-2.3	-3.5	-3.1	-3.2

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 2

REAL ESTATE AND FINANCIAL MARKETS

JANUARY 1982

	QUARTERS							YEARS					
	Actual	Forecast						Actual		Forecast			
	81:3	81:4	82:1	82:2	82:3	82:4	83:1	1979	1980	1981	1982	1983	1984
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,283	1,976	2,092	2,406	2,609	2,911	3,108	3,701	2,881	2,351	2,504	3,547	4,166
Percent Change - Year Ago	-25.3	-34.1	-17.7	-7.5	14.2	47.3	48.6	-4.2	-22.2	-18.4	6.5	41.7	17.4
Dollar Volume (billions)	182.0	153.0	166.9	198.6	221.3	252.3	275.5	237.6	209.7	183.2	209.8	328.2	420.0
Existing Home Prices - Median ($1000's)	67.8	66.3	68.7	71.5	73.7	73.2	76.2	55.7	62.2	66.2	71.8	79.5	87.0
Percent Change - Year Ago	5.2	4.7	6.8	7.6	8.8	10.4	10.9	14.4	11.7	6.7	8.5	10.8	9.4
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	788	786	712	736	789	805	795	433	590	741	760	803	836
Percent of Household Income	30	30	26	27	28	28	27	20	25	29	27	26	25
New Single-Family Home Sales (thousands)	357	324	378	436	499	496	501	709	531	409	452	561	742
Percent Change - Year Ago	-40.6	-40.1	-25.9	-1.7	39.7	53.1	32.7	-13.2	-25.1	-23.1	10.7	24.0	32.4
New Home Prices - Median ($1000's)	70.6	71.5	73.3	75.2	77.4	79.7	82.3	62.9	64.5	69.6	76.4	86.1	95.2
Percent Change - Year Ago	7.4	7.5	9.0	9.0	9.6	11.5	12.2	12.9	2.7	7.3	9.8	12.7	10.5
New Home Prices--Mean ($1000's, Quality Adjusted)	85.8	86.7	90.2	92.6	93.4	94.5	98.4	70.9	78.7	85.3	92.7	101.3	110.9
Percent Change - Year Ago	7.2	8.0	8.3	8.6	8.9	9.0	9.1	14.2	11.0	8.6	8.7	9.3	9.5
New Mortgage Commitments ($ billions)	47.9	54.3	67.3	86.4	98.5	116.4	122.7	129.0	87.1	62.4	92.1	126.9	151.4
Percent Change - Year Ago	-59.5	-43.2	-13.9	24.6	105.4	114.3	82.2	-8.8	-32.5	-28.3	47.5	37.7	19.3
Mortgage Debt Outstanding ($ billions)	1,530	1,560	1,592	1,627	1,670	1,713	1,754	1,266	1,401	1,517	1,651	1,816	2,023
Homeowners' Equity ($ billions)	2,957	3,018	3,091	3,167	3,252	3,355	3,468	2,611	2,750	2,925	3,216	3,656	4,134
Housing Inventory (millions)	84.6	84.7	84.8	84.9	85.0	85.2	85.4	82.8	83.7	84.5	85.0	85.8	87.0
Private Housing Starts (thousands)	968	872	1,008	1,206	1,323	1,489	1,573	1,745	1,292	1,102	1,256	1,657	1,757
Single-Family	652	545	652	825	894	1,006	1,041	1,194	852	713	844	1,108	1,141
Multi-Family	316	327	356	381	428	483	532	551	440	388	412	549	616
Subsidized	92	157	161	163	165	161	157	175	173	115	163	150	125
Mobile Home Shipments (thousands)	244	191	198	214	238	256	270	276	224	235	227	273	276
Rental Vacancy Rate (%)	5.0	5.0	5.0	5.0	4.8	4.8	4.8	5.4	5.4	5.1	4.9	4.9	5.0
Unsold New Homes (% of sales)	89.5	86.6	86.7	82.9	76.8	67.3	59.8	59.3	70.2	79.0	78.4	55.2	61.8
Office Vacancy Rate (%)<1>	4.4	4.3	4.3	4.2	4.0	3.9	3.9	4.4	3.7	4.1	4.1	3.8	4.0
Industrial Vacancy Rate (%)<1>	3.7	3.8	3.7	3.6	3.6	3.5	3.5	3.0	3.5	3.7	3.6	3.4	3.6
New Commercial Building Construction (% Ch Value)	12.8	-18.5	-6.0	-4.4	18.4	23.9	19.2	33.8	21.7	9.7	-1.6	19.2	19.4
New Industrial Building Construction (% Ch Value)	67.9	15.8	-29.1	-29.6	15.5	19.2	28.9	37.2	-6.7	21.4	-2.5	22.2	31.2
FINANCIAL MARKETS													
Personal Savings Rate (%)	5.2	6.1	5.8	5.4	7.0	7.0	6.8	5.3	5.6	5.3	6.3	7.1	7.7
Money Supply (M1b) (% change)	0.2	4.7	4.6	3.8	8.7	4.8	4.8	7.8	6.3	6.9	4.7	5.3	4.6
Money Supply (M2) (% change)	7.3	11.6	10.2	7.1	9.2	9.2	8.5	8.9	8.9	9.7	9.4	8.5	8.3
Total Time and Savings Deposits (% change)	5.4	6.6	7.4	11.0	11.8	11.5	10.3	8.6	7.5	8.5	8.2	10.4	9.2
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	17.35	17.71	15.37	15.29	15.91	16.36	15.50	11.27	14.00	16.65	15.73	14.98	14.20
'People-to-People' Mortgage Rate	13.00	12.80	12.50	12.10	12.30	12.50	12.70	NA	11.25	13.15	12.35	11.90	11.70
Corporate Bond Rate (AAA)	14.92	15.09	14.47	13.78	13.52	13.60	13.52	9.63	11.94	14.29	13.84	13.25	12.16
Government Bond Rate	15.61	13.90	12.52	12.26	13.01	13.51	13.02	9.62	11.51	14.29	12.82	12.54	11.38
Federal Funds Rate	17.58	13.43	11.17	10.54	12.38	13.62	13.54	11.19	13.36	16.34	11.93	13.14	11.18
3 Month Treasury Bills	15.05	11.60	10.03	10.19	11.66	12.33	12.00	10.07	11.43	13.99	11.05	11.70	10.79
1 Year Treasury Bills	16.32	12.51	11.03	11.16	12.54	13.15	12.76	10.67	12.05	14.52	11.97	12.36	11.24
Commercial Paper Rate	16.77	12.65	10.55	10.85	12.77	13.65	13.28	10.97	12.66	15.23	11.95	12.88	11.64
Rate on Money Market Fund Shares	17.21	12.99	11.12	11.41	13.12	14.04	13.57	11.12	12.89	15.60	12.42	13.19	11.83
Prime Rate	20.32	16.95	14.09	13.00	14.75	15.42	15.17	12.67	15.27	18.85	14.31	14.76	13.64

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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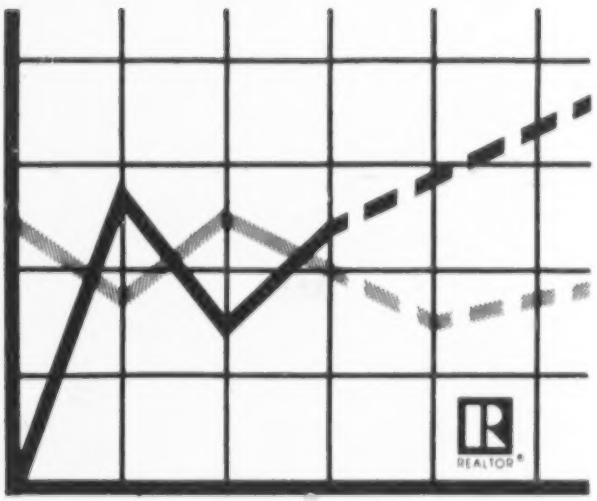
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



BY

DR. JACK CARLSON
Executive Vice President & Chief Economist
NATIONAL ASSOCIATION OF REALTORS®

777 14th Street, N.W.
Washington, D.C. 20005

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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

New evidence indicates the recession deepened during the first two months of the year and that the next recovery will occur late in the Summer and is likely to be only half the pace of normal recoveries as exploding federal deficits and too low money growth targets keep interest rates high and the dollar overvalued with respect to the currencies of our trading partners. Unless this continued poor economic performance results in a significant shift in economic policies that cause major reductions in the projected federal deficits, interest rates and the value of the dollar will remain high and severely limit improvements in housing and investment in new plant and equipment during the next three years.

The General Economy

Dramatic declines in housing construction, auto sales, investment in new equipment and exports all contributed to the sizeable 4.7% annualized decline in the nation's output of goods and services during the final three months of last year as record high interest rates continued to constrain economic growth.

Despite the modest improvement in auto sales during January and February, recent evidence suggests further declines in national output can be expected in the first half of 1982. Industrial production dropped 3% in January to a level nearly 10% below the peak achieved in July last year, while housing starts virtually stagnated at just under 900,000 units--almost 44% below a year ago and over 1 million below demographic demand. As long-term interest rates remain stubbornly high and the dollar overvalued on foreign exchange markets, new investment in nondefense industries and exports will decline during the first half of this year and housing activity will remain depressed!

Overall economic activity should start to pick up in the second half of 1982 as the second round of tax cuts for individuals and index increases in entitlement program payments boost consumer spending. However, even this moderate second half upturn will be less vigorous than during other post-war recoveries and will be insufficient to prevent national output for 1982 as a whole from declining by 1.5%.

The second half recovery should continue into next year, with the third annual slowdown next Winter caused by escalated interest rates during the high seasonal borrowing of the federal government. National output should increase by about 3% in 1983. After three years of below normal growth, this predicted improvement in economic activity next year is weak compared to other post-war recoveries.

The good news from the current recession is inflation has moderated substantially. Consumer prices rose only 0.3% in January and 0.4% in February--the smallest increases since July 1980. This left prices in February "just" 8.4% above a year earlier. Much of the improvement is due to special factors such as continued slow growth in food and energy prices, and to the severe downturns in house and car prices. Nevertheless, there are more